

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 11-0767

IAWC EXHIBIT 9.00R

**REBUTTAL TESTIMONY OF
ANDREW TWADELLE**

ILLINOIS-AMERICAN WATER COMPANY

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**REBUTTAL TESTIMONY
OF
ANDREW TWADELLE**

I. WITNESS IDENTIFICATION AND BACKGROUND

Q1. Please state your name and business address.

A. My name is Andrew Twadelle. My business address is 1000 Voorhees Drive, Voorhees, NJ 08043.

Q2. Are you the same Andrew Twadelle who previously filed testimony in this proceeding?

A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

Q3. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of the People of the State of Illinois ("AG") witnesses Ralph C. Smith (AG Exhibit 2.0) regarding the Business Transformation ("BT") program.

III. RESPONSE TO AG WITNESS MR. SMITH

Q4. Mr. Smith recommends an adjustment to remove all of IAWC's BT costs from rate base, or, in the alternative, that the Commission impute an estimated savings amount in IAWC's rates. Do you have any comments about Mr. Smith's recommendations?

A. Mr. Kerckhove (IAWC Exhibit 5.00R) specifically responds to the cost recovery issues raised by Mr. Smith. I will address Mr. Smith's mischaracterization of BT and will respond to some specific comments he makes about the BT implementation schedule and certain American Water

22 Works Service Company (“American Water”) documents relating to BT
23 that Mr. Smith references in his direct testimony.

24 **Q5. What is the deployment schedule for the BT program?**

25 **A.** As I discussed in my direct testimony (IAWC Exhibit 9.00), the new BT
26 systems and business processes are anticipated to be deployed from
27 2012 through 2013. American Water will implement the BT program in
28 two phases. The Enterprise Resource Planning system (“ERP”) will be
29 deployed in Phase one, with an expected enterprise-wide deployment by
30 August 2012. The EAM and CIS will be deployed in three waves in 2013.
31 It is anticipated that CIS and EAM will be deployed to IAWC and five of its
32 affiliates in March of 2013, seven other affiliates in June 2013, and two
33 more affiliates in September 2013. Throughout 2013, it also is anticipated
34 that IAWC will continue to incur BT costs during this “stabilization” period
35 as the business transitions from the old business processes to the new
36 processes enabled by the BT systems.

37 **Q6. What is the anticipated cost of the BT program?**

38 **A.** The estimated enterprise-wide BT costs have increased from
39 approximately \$286 to \$300 million. Of the approximately \$14 million
40 increase in estimated BT costs, approximately \$4 million represents costs
41 necessary to increase the automation of many of American Water’s
42 internal controls. In addition, approximately \$9 million of the increase in
43 estimated BT costs is for activities designed to prepare the organization to
44 implement and optimize the BT implementation of new business

processes and information technology systems. These activities include identifying and developing a Business Services organization, Centers of Expertise and other organizational improvement initiatives, including identifying improvements to increase spans of control and reduce organizational layers, and identifying best demonstrated American Water practices to leverage throughout the organization.

Q7. What are some of the anticipated benefits of BT?

A. As I explain in greater detail in my direct testimony in this case, BT will provide IABC with a more powerful tool for effectively managing the business.

Q8. Given the anticipated benefits that you have discussed above and in your direct testimony, please explain why IABC is not able to quantify savings from BT at this time.

A. First and foremost, as I have demonstrated in my direct testimony, the BT program is necessary to improve American Water's aged and outdated information technology systems in order to continue to provide efficient, cost effective customer service in the future. Therefore, productivity savings notwithstanding, an information technology upgrade is necessary. Mr. Smith's recommendations completely ignore the valuable qualitative benefits (especially ones that will result in improved customer service) that BT will provide to IABC's customers. More importantly, however, the issue is foremost one of timing. To the extent that BT produces long-term productivity savings, they will manifest themselves as the new solutions

are fully implemented. Moreover, even if it were possible to quantify savings at this time, any estimates would be very preliminary and of limited predictive value.

Q9. Please comment on Mr. Smith's cost savings estimates and recommendations.

A. Mr. Smith relies, in part, on two American Water documents for his recommendations of BT cost savings:

- AG Exhibit 2.4, CONFIDENTIAL, a draft American Water Business Transformation Project Business Case of December 2008 (the "Draft 2008 Business Case"); and
- AG Exhibit 2.6, CONFIDENTIAL, the American Water Business Transformation Review and Update, April 7, 2011 (the "2011 Review and Update").

Both of these documents were intended to be directional, preliminary assessments to assist American Water management in identifying potential benefit opportunities that could be enabled by the BT program.

The preliminary estimated savings numbers included in the Draft 2008 Business Case, in particular, are based on a myriad of assumptions and benchmarking data from companies from a variety of industries. This document was prepared before the initial BT team was formed, before the Comprehensive Planning Study ("CPS") (discussed in my direct testimony) had begun, before American Water's business requirements were identified, and before the software or hardware solutions were even

identified or selected. The document was not intended to quantify expected BT savings and, thus, is of very limited predictive value. In fact, page 2 of the Draft 2008 Business Case clearly states:

Qualifying Statement

The information in this presentation is directional and not intended to be authoritative. The measurement systems supporting the AW [American Water] data in this presentation have not been validated for their accuracy regarding repeatability and reproducibility. Also, benchmarks comparing American Water to Top-Median-Bottom and Water Industry numbers may not be 100% comparable. Use of comparable benchmarks is for information only, and is not meant to convey an opinion that American Water is or should be a Best-In-Class or a Top performer.

The information and data included in this presentation may change over time. It is intended that this presentation will be continuously updated and refined throughout the Business Transformation Program. This presentation should not be considered final.

Further, the Draft 2008 Business Case is clearly marked, "Draft, For discussion Purposes Only" and "Draft – Subject to Revision," and later states: "Amounts to be continuously updated and targets to be set in 2nd qtr, 2009; existing numbers do not have inputs from business."

Mr. Smith also references the 2011 Review and Update to support his cost savings recommendation. As noted on page 20 of that document, however, the BT program is approximately 40% complete, and American Water has about 70% confidence in the estimated costs of the BT program at this time, but only 50% confidence in the estimated cost savings that may result from BT for American Water.

Thus, as the documents clearly indicate, American Water and

IAWC Exhibit 9.00R

IAWC are still unable to confirm the amount of potential savings that may be realized as a result of BT and are unable to specifically identify how potential savings will be attained. As such, Mr. Smith's reliance on them is misplaced.

Finally, Mr. Smith purports to rely on the 2008 Draft Business Case and the 2011 Review and Update, as well as American Water's 2010 and 2011 10-K forms, when recommending, as an alternative to the disallowance of BT costs in rate base, the imputation of an estimated cost savings benefit in rates. (AG Exhibit 2.0, pp. 82-83.) In fact, Mr. Smith proposes that an *acceleration* of the directional estimates of BT cost savings be imputed in IAWC's rates.¹ There are some significant errors, however, with Mr. Smith's proposal. First, Mr. Smith states that:

IAWC's ratemaking request for Business Transformation reflects a more aggressive/accelerated deployment and implementation schedule of the Business Transformation initiative than was presented to the American Water Works board in confidential documents such as AG Exhibits 2.4 and 2.6.

(AG Exhibit 2.0, p. 82.) Indeed, IAWC's ratemaking request for BT is based upon an accelerated BT implementation schedule when compared to the Draft 2008 Business Case, which, as stated, was prepared before the initial BT team was formed, before the CPS had begun, before American Water's business requirements were identified, and before the software or hardware solutions were even identified or selected. IAWC's

¹ As I mention earlier in this testimony, Mr. Kerckhove is addressing the specific details of Mr. Smith's recommendation to impute estimated cost savings in IAWC's rates.

145 ratemaking request for BT costs is not, however, based upon an
146 accelerated BT implementation schedule when compared to the more
147 recent 2011 Review and Update. Rather, the implementation schedule
148 set forth in that presentation aligns with the schedule I have discussed in
149 my direct testimony and above.

150 Moreover, Mr. Smith's acceleration and proposed imputation of
151 directional estimated ERP benefits falsely assumes that significant cost
152 savings will be realized by IAWC upon the initial deployment of a new
153 ERP information system module (ERP) and introduction of new business
154 processes, while IAWC also is deploying new CIS and EAM systems and
155 business processes. As I discussed, the issue is more a matter of timing
156 than anything else. To the extent BT produces long-term productivity
157 savings, they will begin to manifest themselves as the new solutions are
158 fully implemented.

159 **Q10. Mr. Smith testifies it does not "seem realistic that none of the**
160 **Business Transformation related systems would be used for**
161 **American Water Works' non-regulated subsidiaries." (AG Exhibit**
162 **2.0, p. 24.) How do you respond?**

163 **A.** First, I point out that IAWC has previously informed the parties via
164 discovery in this proceeding that its market-based (or "unregulated")
165 affiliates will in fact access two (but only two) aspects of the new BT
166 systems: (1) Success Factors (branded internally as myCareer Solutions)
167 and (2) a portion of the SAP CIS. Success Factors is expected to be

placed in service for IAWC in August 2012. SAP CIS is expected to be placed in service for IAWC in March 2013. Accordingly, Mr. Smith is simply wrong in stating that *none* of the BT related systems would be used by IAWC's market-based affiliates.

Moreover, Mr. Smith's contention demonstrates that he either refuses to believe or chooses to ignore that the BT program and information technology systems have been specifically designed to accommodate the needs of American Water's regulated utility companies. This is because IAWC's market-based affiliates own and operate separate finance, accounting, management of asset lifecycle, customer service, customer billing and strategic planning systems, which in large part satisfy the market-based operations needs in these areas, as IAWC explained in its response to ICC Staff data request DLH-10.01. With the limited exceptions noted above (Success Factors and a portion of SAP CIS), the functionality associated with the BT systems was not designed for IAWC's market-based affiliates' operations, and therefore, the usefulness of the BT systems to IAWC's market-based affiliates will be limited.

Q11. What do you conclude?

A. As stated, Mr. Kerckhove explains in his rebuttal testimony (IAWC Exhibit 5.00R) why Mr. Smith's recommendation to remove BT costs from rate base or, in the alternative, to impute BT savings into IAWC's rates developed in this case are fundamentally unsound and inappropriate from a ratemaking perspective and should be rejected. I likewise conclude Mr.

191 Smith's BT-related recommendations are inappropriate, but for another
192 reason—his recommendations result from misplaced reliance on savings
193 information contained in dated draft forms of American Water
194 documentation, on a misunderstanding of the BT implementation
195 schedule, and on a refusal to accept that BT was specifically designed for,
196 and in large part will be used by, American Water's regulated utility
197 companies alone.

198 **Q12. Does this conclude your rebuttal testimony?**

199 **A.** Yes.